

Message Text

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PAGE 01 STATE 035952

20

ORIGIN AF-06

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 DOTE-00 AGR-05

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AF/EP:RDUNCAN (INFO)

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R 131456Z FEB 76

FM SECSTATE WASHDC

TO AMEMBASSY LUSAKA

INFO AMEMBASSY DAR ES SALAAM

AMEMBASSY LONDON

AMEMBASSY NAIROBI

AMEMBASSY MAPUTO

AMEMBASSY BLANTYRE

AMEMBASSY KINSHASA

C O N F I D E N T I A L STATE 035952

E.O. 11652: GDS

TAGS: EFIN, EGEN, PFOR, ZA

SUBJECT: ZAMBIAN ECONOMIC OFFICIALS MEET WITH ASST. SEC.

SCHAUFELE

1) ON FEB. 11, MINISTRY OF FINANCE PERMSEC WALUSIKU AND
CENTRAL BANK GOVERNOR KUWANI MET WITH ASST. SEC. SCHAUFELE

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PAGE 02 STATE 035952

TO DISCUSS ZAMBIA'S ECONOMIC PROBLEMS AND PROSPECTS FOR

U.S. ASSISTANCE. AMBASSADOR MWALE WAS ALSO PRESENT.
FOLLOWING SIGNIFICANT POINTS WERE COVERED:

2) KUWANI OUTLINED BASIC CAUSES OF ZAMBIA'S ECONOMIC SLUMP (ADVERSE EFFECTS OF WORLDWIDE INFLATION ON IMPORT AND COPPER PRODUCTION COSTS, LOW WORLD PRICES FOR COPPER, CLOSURE OF BENGUELA RAILWAY, CONGESTION AT EAST AFRICAN PORTS, ETC.) . HE NOTED THAT 70,000 TONS OF ZAMBIAN COPPER IS BACKED UP AT DAR, ON WHICH ZAMBIA HAS TO PAY A \$3.00 PER TON PER DAY STORAGE FEE. IN ADDITION, ABOUT 120,000 TONS OF ZAMBIAN IMPORTS ALREADY PAID FOR ARE ALSO STUCK AT DAR, LEADING TO FURTHER STORAGE FEES AND INCREASED IMPORT COSTS.

3) KUWANI SAID THAT WHILE GRZ IS DIVERSIFYING ECONOMY AND EMPHASIZING AGRICULTURE, IT NEEDS IMMEDIATE RELIEF IN

THE FORM OF MORE FOREIGN EXCHANGE. ZAMBIA IS DOING A GREAT DEAL BY ITSELF TO RESOLVE ITS PROBLEMS, BUT ALSO LOOKS FOR "FRIENDS WHO HAVE SUGGESTIONS TO MAKE". MWALE ADDED THAT RISING OIL COSTS HAVE MADE FURTHER INROADS IN THE BALANCE OF PAYMENTS POSITION AND THAT ZAMBIA DOES IN FACT NEED IMMEDIATE RELIEF.

4) IN RESPONSE TO A QUESTION WHETHER ZAMBIA COULD DIVERT CARGO TO EAST AFRICAN PORTS OTHER THAN DAR (E.G. MOMBASA), KUWANI SAID TANZANIA IS NOT READY TO CHANGE ITS POSITION THAT TRUCKS CAN CARRY ONLY 12 TONS OF COPPER OVER ITS ROADS. THIS IS TOO SMALL AN AMOUNT TO BE CARRIED ECONOMICALLY. NACALA IS EXTREMELY EFFICIENT SMALL PORT, BUT HAS ONLY A 10,000-12,000 TON PER MONTH CAPACITY. IN ADDITION, COPPER MUST BE CARRIED SOME 700 MILES BY TRUCK TO THE SALIMA RAILHEAD AND ADDITIONAL EXPENSES ARE INCURRED BY OFFLOADING AND ONLOADING AGAIN. CARGO TO BEIRA MUST ALSO USE MALAWI ROUTE AND PRESENT ROAD CONDITIONS LIMIT CAPACITY TO 5,000 TONS PER MONTH. ZAMBIA HAS REACHED AGREEMENT WITH MOZAMBIQUE TO HARDSURFACE THE ROAD TO TETE AND BEIRA AT A COST OF \$8 MILLION, TO BE BORNE BY ZAMBIA. WHEN THE ROAD IS UPGRADED, ABOUT 15,000 TONS OF CARGO CAN MOVE THROUGH BEIRA EACH MONTH.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 035952

5) KUWANI COMMENTED THAT THERE WAS NO BACKLOG OF COPPER IN ZAMBIA ITSELF. HE WOULD PREFER THAT IF COPPER HAD TO AWAIT SHIPMENT, IT REMAIN IN ZAMBIA RATHER THAN AT DAR SINCE FOREIGN EXCHANGE DRAIN WOULD BE MUCH LESS. HOWEVER, GRZ STUDY OF HAULAGE ECONOMICS CONCLUDED IT WAS CHEAPER TO SHIP TO DAR THAN TO PAY FOR UNUTILIZED TRUCK CAPACITY FROM ZAMBIA TO DAR. HE PREDICTED BUILDUP AT DAR WOULD

CONTINUE TO INCREASE.

6) SCHAUFEELE ASKED WHETHER IMF/IBRD OR COMMERCIAL BANKS PREPARED TO ASSIST ZAMBIA. WALUSIKU SAID HIS TALKS AT THE IBRD HAD BEEN CONFINED TO PRELIMINARY STAGE AND IT WAS HARD TO PREDICT WHAT BANK WOULD DO. HOWEVER, HE BELIEVED BANK APPRECIATED SEVERITY OF ZAMBIA'S DIFFICULTIES AND NEED FOR QUICK ACTION. KUWANI INDICATED THAT WHILE COMMERCIAL BANKS FELT ZAMBIA IS CREDIT-WORTHY AND CLEARLY NEEDS ASSISTANCE, THEY WANT TO KNOW WHAT KIND OF GOVT.-TO-GOVT. HELP WILL BE PROVIDED BEFORE COMMITTING THEMSELVES. HE SUGGESTED THAT STAFF-LEVEL OFFICIALS WERE FAVORABLY DISPOSED TOWARD GRZ, BUT THAT DIRECTORS OF BANKS HAD THE FINAL SAY AND MIGHT NOT CONCUR WITH STAFF RECOMMENDATIONS. THE SHORT TERM (90 DAY) COMMERCIAL EXPORT CREDIT NORMALLY PROVIDED IS TOO SHORT IN VIEW OF TIME DELAYS INVOLVED IN LONG-DISTANCE SHIPPING, ETC. LONGER CREDIT TERMS (SIX MONTHS OR MORE) WOULD BE MUCH BETTER. EUROPEAN COMMERCIAL

BANKS, LIKE AMERICAN BANKS, WANT INFORMATION ON GOVT.-TO-GOVT. HELP BEFORE MAKING DECISIONS ABOUT LOANS TO ZAMBIA.

7) SCHAUFEELE OUTLINED USG THINKING RE AID TO ZAMBIA: WHILE NO SPECIFIC ASSURANCES CAN BE GIVEN AT THIS POINT, WE DO WANT TO BE OF ASSISTANCE. IN ADDITION TO INTRINSIC MERITS OF HELPING BOTH ZAMBIA AND ZAIRE, WE FEEL IT IMPORTANT TO HELP THEM OVERCOME EFFECTS OF WHAT HAS HAPPENED IN ANGOLA, SUBJECT OF COURSE TO CONGRESSIONAL APPROVAL. RE CONGRESS, SCHAUFEELE DETECTED SOMEWHAT DEFENSIVE ATTITUDE ON PART OF ANTI-ANGOLA FORCES, WHICH MAY MAKE THEM INCLINED TO SUPPORT REQUESTS FOR HELP FOR ZAMBIA AND ZAIRE. HE ALSO DETECTED CONGRESSIONAL SYMPATHY FOR ZAMBIA'S ECONOMIC PROBLEMS.
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PAGE 04 STATE 035952

8) HOWEVER, MAGNITUDE OF THESE PROBLEMS MAKES IT IMPOSSIBLE FOR U.S. TO RESOLVE THEM BY ITSELF. WE ARE PREPARED TO CONTACT IMF, IBRD, EX-IM BANK AND OUR FRIENDS IN EUROPE AND ENCOURAGE THEM TO GIVE FAVORABLE CONSIDERATION TO ZAMBIA'S REQUESTS. SCHAUFEELE HOPED ZAMBIANS WOULD ALSO CONTACT VARIOUS EUROPEAN GOVTS. DIRECTLY TO EXPLORE POSSIBLE ASSISTANCE FROM THEM. U.S. AND GRZ OFFICIALS BOTH IN WASHINGTON AND IN LUSAKA SHOULD STAY IN CLOSE CONTACT TO WORK OUT DETAILS OF POSSIBLE U.S. EXPORT FINANCING HELP. ZAMBIA SHOULD SUGGEST GENERAL AREAS WHERE EX-IM CREDITS, PL-480, AID, ETC. MIGHT BE USEFUL. SCHAUFEELE INDICATED THAT WHILE SOME DELAY INHERENT IN OUR PROCESS DUE TO NEED FOR DATA-GATHERING, CONSULTING WITH OTHER GOVTS. AND INSTITUTIONS WHO PLAN TO HELP ZAMBIA, AND

NEED TO OBTAIN CONGRESSIONAL APPROVAL, HE NEVERTHELESS
OPTIMISTIC WE WOULD BE ABLE TO PROVIDE ASSISTANCE.

9) COMMENT: WE EXPECT WALUSIKU AND KUWANI WILL BE IN
TOUCH WITH EMBASSY AFTER RETURN TO LUSAKA. PLEASE
ENCOURAGE THEM TO COME UP WITH SPECIFIC SUGGESTIONS HOW
U.S. CAN HELP AND HOW THIS CAN BE MESSED WITH ASSISTANCE
FROM OTHER SOURCES. KISSINGER

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